



*Today's
Investment*

*Tomorrow's
Prosperity*



**Shelby County
Financial Management Plan**

*Restoring a healthy and
stable economic climate within
Shelby County*

Mayor Wharton has implemented a five-year strategic and financial management plan focused heavily on operating efficiencies and debt management, particularly the reduction of the County's debt service requirement. He has increased efficiencies within county government to save taxpayer dollars. Shifting government from retail to wholesale, he has handed certain responsibilities back to municipalities including control of most libraries and parks. A proactive financial management strategy has restored a healthy and stable economic climate within Shelby County.

Debt Reduction Plan in Action

Taking office in September of 2002, Mayor Wharton inherited an unbalanced budget and a snowballing debt service requirement figure but has gotten the county back on firm financial footing and has implemented a plan to deal with the County's \$1.7 billion debt. Without corrective action, the County's debt service requirement would have climbed to \$205 million per year. However, by aggressively working to restructure the County's debt portfolio and to also reduce the amount of capital spending, the projected peak in debt service is now only \$183 million – a \$22 million per year reduction.

The Five-Year Strategic Plan

- Projects operating and debt service fund trends and identifies potential revenue shortfalls in the future
- Recognizes the structural imbalance between revenue and expense growth in Shelby County, thereby identifying the cause of budget gaps in the future
- Provides a plan that is a catalyst for change in the operation of county government, while promoting revenue diversification
- Provides a basis for managing long-term capital expenditures; and
- Addresses the fragmentation of services created by the large number of elected officials

The plan, containing 81 individual initiatives, addresses each of the above challenges. Year one of the plan, implemented in fiscal '04, eliminated a fiscal gap of \$51.1 million by focusing on savings. The county generated a surplus in that year and each succeeding year, rebuilding the unrestricted general fund to over \$37 million at the June 30, 2005 year end. An additional surplus in fiscal '06 will increase this figure to \$41 million.

Some of the initial savings initiatives included:

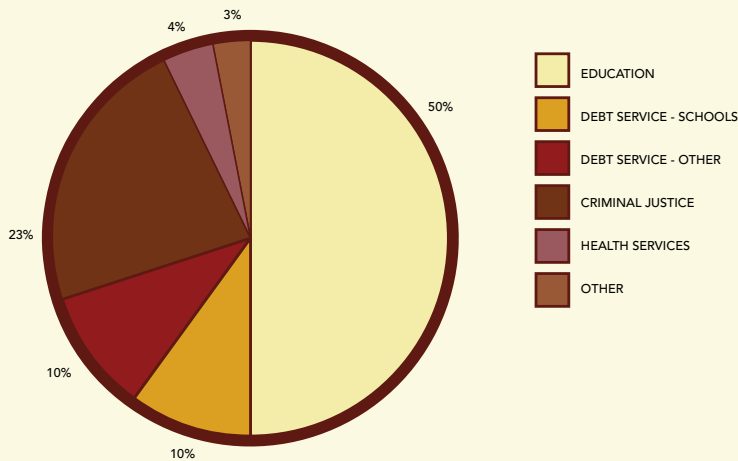
- Shrinking government by eliminating more than 100 positions and saving over \$5 million
- Refinancing most of the county's debt
- Reducing maintenance budget by transferring parks and libraries to municipalities
- Reducing furniture and fixture expense by 50%
- Moving all printing in house

The five-year plan is a work in progress that is constantly monitored and updated. More than 30 revenue initiatives remain on the active list including:

- Reorganization of human resources
- Implementation of e-procurement
- I.T. initiatives and long range planning for personnel and equipment (Technology Coordination Office)
- A new Economic Development Office
- Ongoing debt management

Bond agencies note a diversified and expanding economic base, strong financial management practices and improved financial performance.

Where Property Taxes are Spent

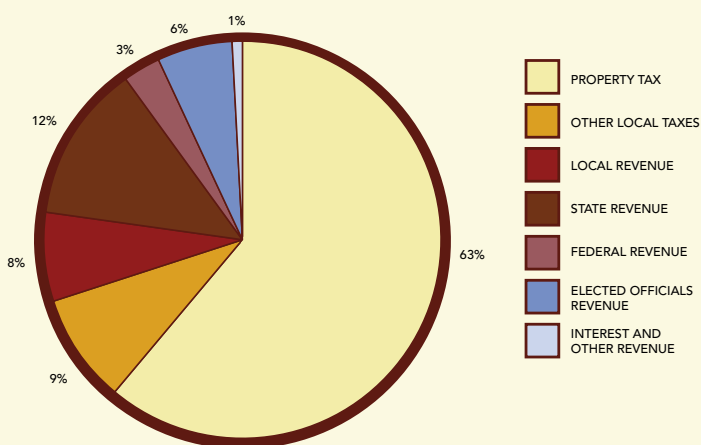


Education Financing

More than half of the county's debt is applicable to education financing so addressing the needs of the county schools is a high priority in establishing sound financial strategies for county government. 50% of county property taxes, or \$327 million, are used to fund education (60% if you include debt service). Mayor Wharton is working to ease the burden of school funding and to streamline the process to ensure the funding is well spent. A Needs Assessment Committee was formed to look at the capital needs of both the Shelby County and Memphis City School Systems. Its actions taken include:

- Independent review of all requests for reasonableness and needs to match available funding
- Shift the focus from response action to growth planning in the construction of new schools
- Secure existing federal funding and take advantage of every federal funding dollar

Where the Money Comes From



Bond Rating Back Up

- Under Mayor Wharton's leadership and financial strategy, Shelby County's bond ratings have improved, reflecting an acknowledgement by the rating agencies that the County's plan has been successful. They note a diversified and expanding economic base, strong financial management practices and improved financial performance and general fund position. By strengthening the bond ratings, the county can borrow money at lower interest rates.
- According to S&P in February 2006, the County's 'AA+' bond rating reflects a deep, diverse economy, a manageable debt burden, and sound finances. Shelby County faces a broad set of service demands that place pressure on operations. Responding to a recent period of fiscal volatility, officials undertook aggressive balancing actions, including the elimination of noncore functions, staffing reductions, and a modest debt restructuring. The adjustments led to successive operating surpluses in fiscal years 2004 and 2005, and a restoration of the unreserved general fund balance to above the targeted level of 10% of spending.

To learn more about Shelby County's Financial Management Plan, please visit www.shelbycountyttn.gov

